



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 5, 2004

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Auditor of State David A. Vaudt today released an audit report on the Peace Officers' Retirement, Accident and Disability System for the year ended June 30, 2003. The System provides retirement, disability and death benefits to the peace officers of the Iowa Department of Public Safety and their dependents. The System covered 1,098 active and retired peace officers in fiscal year 2003.

The System's net assets held in trust for pension benefits totaled \$215,454,491 at June 30, 2003. Additions included employer contributions of \$5,540,116, member contributions of \$3,046,982 and net investment income of \$923,383. Deductions for the fiscal year totaled \$13,429,545, primarily for pension and annuity benefits.

The System's unfunded actuarial accrued liability increased approximately \$16,055,000 during fiscal year 2003 from \$43,600,000 at June 30, 2002 to \$59,655,000 at June 30, 2003, due primarily to a lower than expected rate of return on investments. The unfunded actuarial accrued liability as a percentage of covered payroll increased from 136% for fiscal year 2002 to 181% for fiscal year 2003.

A copy of the audit report is available for review in the Office of Auditor of State.

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**PEACE OFFICERS' RETIREMENT, ACCIDENT
AND DISABILITY SYSTEM**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2003

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**Peace Officers'
Retirement, Accident and Disability System**

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Cynthia P. Eisenhauer
Dennis C. Prouty

Governor
Director, Department of Management
Director, Legislative Services Agency

Board of Trustees

Commissioner Kevin W. Techau
Honorable Michael L. Fitzgerald
Marland Winter
Jack Wissler
Terrance Lillis

Chairperson
Member
Member (through June 30, 2003)
Member (through June 30, 2004)
Member (through June 30, 2004)

Agency

Mollie K. Anderson
David R. Heuton

Jeff Beal

Director, Iowa Department of Administrative Services
Director of Administrative Services,
Department of Public Safety
Secretary, Peace Officers' Retirement, Accident
and Disability System

Peace Officers'
Retirement, Accident and Disability System



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Independent Auditor's Report

To the Board of Trustees of the Peace Officers'
Retirement, Accident and Disability System:

We have audited the financial statements, listed as exhibits in the table of contents of this report, of the Peace Officers' Retirement, Accident and Disability System, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the Peace Officers' Retirement, Accident and Disability System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements of the Peace Officers' Retirement, Accident and Disability System are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Peace Officers' Retirement, Accident and Disability System at June 30, 2003, and the changes in fiduciary net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 7 through 9 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2003 on our consideration of the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Peace Officers' Retirement, Accident and Disability System provides an overview of the retirement system's financial activities for the fiscal year ended June 30, 2003.

2003 FINANCIAL HIGHLIGHTS

- **Net plan assets** held in trust for pension benefits decreased in fiscal year 2003 (FY03). On June 30, 2002, net assets totaled \$219,373,555. On June 30, 2003, net assets totaled \$215,454,491, a decrease of \$3,919,064, or 1.8% for FY03.
- **Covered payroll**, upon which member and employer pension contributions are calculated, increased by \$865,000 in FY03. Member contributions in FY03 totaled \$3,046,982, an increase of \$40,521, or 1.3% over FY02. Employer contributions in FY03 totaled \$5,540,116, an increase of \$73,750, or 1.3% over FY02.
- **Investment performance** for FY03 was an annualized rate of 0.74%.
- **Total additions** for FY03 were \$9,510,481. This compares to total additions of \$3,946,361 for FY02.
- **Pension and annuity benefits** paid to members totaled \$13,345,261, an increase of \$1,455,066 from FY02, when members were paid \$11,889,295.
- **Administrative expenses** for FY03 totaled \$76,611, as compared to \$70,371 in FY02.

USING THIS FINANCIAL REPORT

This Financial Report reflects the activities of the Peace Officers' Retirement System (PORS) as reported in the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets.

These statements are presented on an accrual basis and reflect all System activities as incurred. The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

The other supplementary information following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the condition of the plan.

ANALYSIS OF PLAN NET ASSETS

Tables 1 and 2 on the pages that follow provide condensed summaries of plan net assets and a breakdown of the changes to the plan net assets with comparisons to the previous fiscal year.

PORS total net assets on June 30, 2003 were \$215,454,491, a decline of \$3,919,064 from the previous fiscal year-end balance.

PLAN NET ASSETS**Table 1**

June 30	2003	2002	Increase (Decrease) Amount	Increase (Decrease) Percent
Cash and investments	\$256,746,272	222,302,874	34,443,398	15.5%
Receivables	<u>4,048,613</u>	<u>2,752,635</u>	<u>1,295,978</u>	47.1
Total assets	260,794,885	225,055,509	35,739,376	15.9
Total liabilities	<u>45,340,394</u>	<u>5,681,954</u>	<u>39,658,440</u>	698.0
Plan net assets	<u><u>\$215,454,491</u></u>	<u><u>219,373,555</u></u>	<u><u>(3,919,064)</u></u>	(1.8)

A large percentage of total assets at June 30, 2003 (97%) is made up of investments held to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. Other assets, including cash, cash equivalents and receivables, comprise the remaining 3% of total assets. Total assets at June 30, 2003 increased by \$35,739,376, or 15.9% from the previous fiscal year-end balance.

Outstanding liabilities at the close of FY03 represent amounts owed for investment related transactions. Total liabilities at June 30, 2003 were \$45,340,394, an increase of \$39,658,440, from the previous fiscal year-end balance, due to an increase in investment related payables.

CHANGES IN PLAN NET ASSETS**Table 2**

Fiscal years ended June 30	2003	2002	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions:				
Member contributions	\$ 3,046,982	3,006,461	40,521	1.3%
Employer contributions	5,540,116	5,466,366	73,750	1.3
Net investment income (loss)	<u>923,383</u>	<u>(4,526,466)</u>	<u>5,449,849</u>	120.4
Total additions	<u>9,510,481</u>	<u>3,946,361</u>	<u>5,564,120</u>	141.0
Deductions:				
Annuity benefits	13,345,261	11,889,295	1,455,966	12.2
Administrative and refund expenses	<u>84,284</u>	<u>85,809</u>	<u>(1,525)</u>	(1.8)
Total deductions	<u>13,429,545</u>	<u>11,975,104</u>	<u>1,454,441</u>	12.1
Decrease in Plan Net Assets	<u><u>\$ (3,919,064)</u></u>	<u><u>(8,028,743)</u></u>	<u><u>4,109,679</u></u>	51.2

The decrease in plan net assets is due to both market conditions and the continuing increase in benefits paid out as compared to contributions received. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as PORs. The Plan's annualized rate of return for FY03 was 0.74%. In FY02, the annual rate of return was -2.06%.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide our membership, taxpayers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Iowa Department of Public Safety Peace Officers' Retirement System, Wallace State Office Building, Des Moines, IA. 50319

Financial Statements

Exhibit A

Peace Officers'
Retirement, Accident and Disability System

Statement of Fiduciary Net Assets

June 30, 2003

Assets:

Cash and cash equivalents		\$	3,798,559
Receivables:			
Investments sold			1,960,035
Contributions			233,390
Accrued interest			1,661,496
Dividends			193,692
Investments, at fair value (note 2):			
Fixed income	\$ 67,647,828		
Common stock	103,475,664		
Securities lending cash collateral pool	41,425,351		
Securities on loan with brokers	40,398,870		252,947,713
Total assets			<u>260,794,885</u>

Liabilities:

Payables:			
Brokers rebate and collateral deposits	41,425,351		
Investments purchased	3,643,179		
Accounts	271,864		45,340,394
			<u>45,340,394</u>

Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 20.)	<u><u>\$215,454,491</u></u>
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See notes to financial statements.

Peace Officers'
Retirement, Accident and Disability System
Statement of Changes in Fiduciary Net Assets
Year ended June 30, 2003

Additions:		
Member contributions		\$ 3,046,982
Employer contributions		5,540,116
Investment income(loss):		
Interest	\$ 5,987,439	
Dividends	1,195,589	
Net decrease in fair value of investments	(4,999,564)	
Less investment expense	(1,260,081)	
Net investment income		<u>923,383</u>
Total additions		<u>9,510,481</u>
Deductions:		
Pension and annuity benefits		13,345,261
Administrative expenses		76,611
Refunds		<u>7,673</u>
Total deductions		<u>13,429,545</u>
Net decrease in net assets held in trust for pension benefits		(3,919,064)
Net assets held in trust for pension benefits:		
Beginning of year		<u>219,373,555</u>
End of year		<u>\$ 215,454,491</u>

See notes to financial statements.

Peace Officers'
Retirement, Accident and Disability System

Notes to Financial Statements

June 30, 2003

(1) Plan Description

Plan Membership

The Peace Officers' Retirement, Accident and Disability System is the administrator of a single-employer defined-benefit public employee retirement system (PERS) that is a statewide retirement system for peace officers in the Iowa Department of Public Safety. Employee membership data follows:

	<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>
Current retirees and beneficiaries	472	460
Terminated members with deferred benefits	26	19
Active plan members:		
Fully vested	502	560
Non-vested	98	68
Total	<u>1,098</u>	<u>1,107</u>

Plan Benefits

Plan benefits are established by state law under Chapter 97A of the Code of Iowa and may be amended only by the state legislature.

1. Service Retirement Benefits – A member may retire with a service allowance after completing twenty-two years creditable service and attaining the minimum service retirement age of fifty-five. The retirement allowance consists of a pension equal to sixty and one-half percent of the member's average final compensation plus an additional two and three-fourths percent for each year of service over twenty-two years, not to exceed ten additional years or a maximum of 88 percent. The member's average final compensation is the average earnable compensation of the member during the member's highest three years of service as a member of the Iowa Department of Public Safety.
2. Ordinary Disability Retirement Benefits – A member may retire on an ordinary disability retirement allowance, provided that the medical board, after a medical examination of the member, has certified that the member is mentally or physically incapacitated for further performance of duty and that such incapacity is likely to be permanent and that the member should be retired. The ordinary disability retirement allowance consists of a pension which is equal to fifty percent of the member's average final compensation, except if the member has not had five or more years of membership service. Then the member will receive a pension equal to twenty-five percent of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member shall receive the greater of the benefit that would be payable under a service retirement if the member were fifty-five years of age or fifty percent of the member's average final compensation.

3. **Accidental Disability Benefit** – A member who has become totally and permanently incapacitated for duty as the result of an injury, disease or exposure occurring while in the actual performance of duty will be retired by the board of trustees, provided that the medical board has certified that such member is mentally or physically incapacitated for further performance of duty, that such incapacity is likely to be permanent and that the member should be retired. Upon retirement for accidental disability, a member will receive an accidental disability retirement allowance which consists of a pension equal to sixty percent of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member will receive the greater of the benefit that would be payable under a service retirement if the member were fifty-five years of age or sixty percent of the member's average final compensation.
4. **Ordinary Death Benefit** – Upon the death of a member who has one or more years of service and no pension payable for accidental death benefits, an amount equal to fifty percent of the final year of compensation will be payable to the member's beneficiary. If the member was in service at the time of death, the beneficiary, if qualified, may elect to receive a pension equal to forty percent of the average final compensation, but not less than an amount equal to twenty-five percent of the compensation paid to an active member having the rank of senior patrol officer of the Iowa highway safety patrol payable immediately upon the death of the member. If the member was not in service at the time of death, the pension will be reduced to a prorated service allowance payable commencing when the member would have attained the age of fifty-five.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to six percent of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

5. **Accidental Death Benefit** – Upon the death of a member as a result of an accident or exposure occurring in the performance of duty, there will be payable to the member's surviving spouse, children, or dependent parent a pension equal to fifty percent of the average final compensation of the member. If there is no surviving spouse, children, or dependent parent, the death will be treated as an ordinary death case and the benefit will be payable to the member's estate.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to six percent of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

6. **Line of Duty Death Benefit** – Upon the receipt of evidence and proof that the death of a member in service was the direct and proximate result of a traumatic personal injury incurred in the line of duty, the person authorized to receive an accidental death benefit will receive a lump sum payment equal to one hundred thousand dollars.

Vested Membership – A member leaving covered employment before attaining retirement age but after completing at least four years of covered service is entitled to receive a service retirement allowance upon attaining the minimum service retirement age providing his or her accumulated contributions have not been withdrawn.

(2) Summary of Significant Accounting Policies

A. Reporting Entity

For financial reporting purposes, the Peace Officers' Retirement, Accident and Disability System has included all funds. The System has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Peace Officers' Retirement, Accident and Disability System.

The System has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The Peace Officers' Retirement, Accident and Disability System is treated for accounting purposes as a Pension Trust Fund, which is a fiduciary fund type. The operations of the fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, additions and deductions.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Peace Officers' Retirement, Accident and Disability System's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Pension benefits and annuities are recognized when due and payable in accordance with the terms of the plan.

D. Cash and Cash Equivalents

Cash and cash equivalents represent cash and money market investments held by the Treasurer of State and cash allocated to the System's investment managers for investment. The System's deposits throughout the year and at year end were entirely covered by federal depository insurance and the State Sinking Fund.

E. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The Board of Trustees is responsible for investing the Peace Officers' Retirement, Accident and Disability System's funds. The System is authorized by statute to invest in any form of indebtedness issued, assumed, or guaranteed by the federal government. In addition, the fund may be invested in a manner consistent with the "Model Prudent Person Investment Act." The act requires that in investing, acquiring, reinvesting, exchanging, retaining and managing property, that judgment and care be taken which persons of prudence, discretion and intelligence exercise in the management of their own affairs.

The System has no investment in any specific stock or bond issues of any commercial or industrial organization other than the U.S. government and its instrumentalities where market value exceeds five percent of the net assets held in trust for pension benefits. The System does not invest in obligations of the State of Iowa or its political subdivisions.

The System spent \$1,260,081 for investment management expenses which was .58% of the market value of the net assets held in trust for pension benefits at June 30, 2003.

The System's investments are categorized to give an indication of the level of credit risk assumed by the System at year end. Category 1 includes registered securities that are held by the custodian in the System's name to facilitate trading.

The System's investments at June 30, 2003 are as follows:

Type	Cost	Fair Value
Investments – Category 1:		
Fixed income securities:		
U.S. government securities	\$ 48,234,020	49,013,769
Bonds and notes	17,210,298	18,634,059
Common stock	101,512,488	103,475,664
	<u>166,956,806</u>	<u>171,123,492</u>
Investments – Not Categorized:		
Investments held by broker-dealers under securities on loan for cash or cash collateral:		
U.S. government securities	26,575,463	27,005,080
Bonds and notes	3,092,188	3,347,997
Common stock	9,855,201	10,045,793
Securities lending cash collateral pool	41,425,351	41,425,351
	<u>80,948,203</u>	<u>81,824,221</u>
Total investments	<u>\$ 247,905,009</u>	<u>252,947,713</u>

The Board of Trustees has authorized a securities lending program in which the System's custodial bank is permitted to lend any of the securities it holds in custody for the System to broker-dealers and other entities in exchange for collateral. The custodian bank is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities, or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102 percent of the market value of any U.S. securities lent and 105 percent of the market value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100 percent of the value of the security lent plus accrued interest income. The System cannot pledge or sell collateral securities received unless the borrower defaults. Securities lent at year end for cash collateral are presented as unclassified in the schedule of custodial credit risk.

The contract with the custodial bank requires it to indemnify the System if a borrower fails to return the securities or fails to return all of the income attributable to securities on loan. As of June 30, 2003, the System had securities on loan, including accrued interest income, with a total value of \$40,398,870 against collateral with a total value of \$41,425,351.

The majority of securities loans are open loans, i.e., one day maturity, where the rebate rate due the borrower is renegotiated daily. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from borrowers is invested in a cash collateral investment pool which is managed by the custodian bank in accordance with investment guidelines established by the System. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with the loans.

(3) Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation to the Peace Officers' Retirement, Accident and Disability System for the current year were as follows:

Annual required contribution	\$ 7,883,879
Interest on assets in excess of net pension obligation	(1,399,643)
Adjustment to annual required contribution	<u>1,346,805</u>
Annual pension cost	7,831,041
Contributions made	<u>5,540,116</u>
Increase in net pension obligation	2,290,925
(Assets in excess of) net pension obligation beginning of year	<u>(17,495,537)</u>
(Assets in excess of) net pension obligation end of year	<u><u>\$ (15,204,612)</u></u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The end of year net pension obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the System's actual contributions for fiscal years 1988 through 2003.

The annual required contribution for the current year was determined as part of the July 1, 2003 actuarial valuation using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded actuarial liabilities. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 10% for the first year, 5% for each of the next 4 years and 5.5% thereafter, (c) payroll growth of 4%, and (d) post retirement benefits based on expected payroll growth and provision of the law. The actuarial value of assets was determined

using a smoothing method. Any unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2003 was 18 years.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess) of Net Pension Obligation
2001	\$ 4,199,585	126%	(17,327,511)
2002	5,298,340	103	(17,495,537)
2003	7,831,041	71	(15,204,612)

(4) Contribution Required and Contribution Made

The contributions to the System were made pursuant to Chapter 97A of the Code of Iowa and were not based upon actuarial determinations. Therefore, actual contributions differ from the annual required contribution described in Note 3 above, which is actuarially determined.

Member contribution rates are established by statute at 9.35 percent. However, the System shall increase the member's contribution rate as necessary to cover any increase in cost to the System resulting from statutory changes which are enacted by any session of the General Assembly meeting after January 1, 1991, if the increase cannot be absorbed within the contribution rates established, but subject to a maximum employee contribution rate of 11.3 percent. After the employee contribution reaches 11.3 percent, sixty percent of the additional cost of such statutory changes shall be paid by employers and forty percent of the additional cost shall be paid by employees. This is deducted from the member's salary and remitted by the employer.

The employer is obligated by statute to contribute 17 percent of the covered payroll. Contribution provisions are established by State law and may be amended only by the State legislature. The State of Iowa has historically followed a contribution policy of appropriating funds based upon a percentage of the current salaries for which funds are appropriated.

The member contribution required and contributed was \$3,046,982 representing 9.35 percent of the current year covered payroll. The State contribution required by statute was \$5,540,116 and the amount actually contributed was \$5,540,116. Costs of administering the plan are financed through employer contributions and investment income.

An actuarial valuation of the System's assets and liabilities is required at least once every two years per Chapter 97A of the Code of Iowa.

(5) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are fully insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years. The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts.

A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

Supplementary Information

Schedule 1

Peace Officers'
Retirement, Accident and Disability System

Schedule of Funding Progress

For the Last Six Fiscal Years
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets** (a)	Actuarial Accrued Liability [AAL]* (b)	(Funded) Unfunded AAL [UAAL] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL/ Covered Payroll ((b-a)/c)
7/1/1998	\$ 207,650	178,631	(29,019)	116%	26,954	(108%)
7/1/1999	219,463	187,312	(32,151)	117	28,059	(115)
7/1/2000	239,568	240,785	1,217	99	30,293	4
7/1/2001	249,227	263,002	13,775	95	30,926	44
7/1/2002	250,914	294,514	43,600	85	32,154	136
7/1/2003	246,443	306,098	59,655	81	33,019	181

* This amount is based on the Projected Unit Credit method. The Aggregate Cost method is used to determine the required contribution.

** As permitted by the Code of Iowa, effective July 1, 2001 and beginning with the July 1, 2001 valuation, a smoothing method was adopted by the board of trustees to determine the actuarial (market related) value of assets. The smoothing method is designed to reduce changes in the normal contribution rate which could result from fluctuations in the market value of the assets of the system. Prior to this, market value was used.

The increase in unfunded AAL for the July 1, 2003 valuation was primarily due to a lower than expected rate of return on investments.

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.

Peace Officers'
Retirement, Accident and Disability System

Schedule of Employer Contributions

For the Last Six Fiscal Years

Fiscal Year Ended June 30,	Annual Required Contribution	Total Employer Contribution	Percentage Contributed
1998	\$ 1,773,145	4,588,667	259%
1999	556,317	4,860,834	874
2000	948,875	3,990,488	421
2001	4,231,914	5,291,371	125
2002	5,332,844	5,466,366	103
2003	7,883,879	5,540,116	70

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.

**Peace Officers'
Retirement, Accident and Disability System**



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees of the Peace Officers'
Retirement, Accident and Disability System:

We have audited the financial statements of the Peace Officers' Retirement, Accident and Disability System, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Peace Officers' Retirement, Accident and Disability System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Peace Officers' Retirement, Accident and Disability System, citizens of the State of Iowa and other parties to whom the Peace Officers' Retirement, Accident and Disability System may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Peace Officers' Retirement, Accident and Disability System during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2003

Peace Officers'
Retirement, Accident and Disability System

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor
Jill M. Bergantzel, Staff Auditor
Jennifer R. Edgar, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State